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Anglo-Canadian Telephone Company

715 VICTORIA SQUARE, MONTREAL, QUEBEC H2Y 2H7



ANNUAL REPORT 1974

Directors

THEODORE F. BROPHY
ROGER CHARBONNEAU
JOHN H. E. COLBY
JOHN J. DOUGLAS

CHARLES G. FARRIS
WILFRED R. JOYCE
DAVID L. TORREY
LESLIE H. WARNER

Officers

JOHN J. DOUGLAS
President
WILFRED R. JOYCE
Vice-President, Secretary and Treasurer

JOEL P. MELLIS
Assistant Secretary
RICHARD F. HARDY
Assistant Treasurer

Transfer Agents and Registrars

CUMULATIVE PREFERRED STOCK

The Royal Trust Company, Montreal, Quebec, Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Winnipeg, Vancouver, Saint John, Halifax and Calgary

COMMON STOCK

The Company

To the Shareholders:

March 13, 1975

Submitted herewith is the Fortieth Annual Report of Anglo-Canadian Telephone company covering operations of the Company and its subsidiaries for the year 1974, with comparative results for the preceding year.

Consolidated operating revenues for 1974 increased 14.5% over 1973 to \$374,139,000, while consolidated net income amounted to \$19,629,000, a gain of only 2.5%. For the second consecutive year, continued inflation, with attendant increases in the cost of money used to fund the record high construction programs of our telephone operating company subsidiaries, together with higher wages, taxes and higher costs for materials and services, resulted in only a nominal growth in consolidated net income. It is apparent that the continuing efforts of our telephone company managements to control expenses and increase productivity will not alone be sufficient to produce the results demanded by today's competitive investment climate. Repricing of services provided by our telephone company subsidiaries must be continued if the service demands of their subscribers are to be met.

The total telephones served by our telephone companies at year-end 1974 were 1,673,000, an increase of more than 8% for the year. A record of \$244,682,000 was invested in new capital equipment in 1974, and present plans call for construction expenditures of \$323,000,000 in the year 1975.

The Company maintained its approximately 51% ownership of the ordinary shares of British Columbia Telephone Company (BCTel) by purchasing its proportionate share of the 529,775 ordinary shares offered by that company in October on a rights basis at \$43 per share. BCTel and its subsidiary, Okanagan Telephone Company, served a total of 1,383,202 telephones at year-end 1974, an increase of almost 8% for the year. Expenditures for new plant and equipment for 1974 amounted to \$201 million. The population growth in the Province of British Columbia continues to be double that of the average for the rest of Canada, and the substantial continued capital requirements of BCTel are clearly indicated. Operating revenues increased 17% in 1974 to \$302,873,000, but the inflation-fueled increases in operating expenses, interest and taxes during the year reduced the net income available for ordinary shares to \$18,756,000, compared with the \$18,768,000 earned in the year 1973. Earnings per average ordinary share outstanding for the year were \$5.57, compared with \$5.80 per share for 1973.

Québec-Téléphone, 55% owned by the Company, served a total of 197,927 telephones at year-end. Although operating revenues increased over 11% during the year to \$47,451,000, net income declined 12% to \$4,221,000. A strike and the continued effects of inflation on operating costs and interest charges resulted in a decrease in earnings per share to \$1.80 in 1974 compared with \$2.08 in 1973. During the year almost \$28 million was expended for new plant and equipment.

Compania Dominicana de Telefonos, C. por A., a wholly-owned subsidiary, continues the rapid expansion of the communication services it furnishes within the Dominican Republic. Telephones in service increased 20.3% during the year to 91,931, compared with 37,981 only five years ago. Operating revenues increased 25% to \$20,092,000, and net income for the year was \$6,666,000, an increase of 14.9%. Growth at such a rapid rate requires the expenditure of large sums to keep pace with service requirements. Substantial amounts of new capital investment will be needed in the years ahead.

In conclusion, it seems appropriate to point out that there have been no dividend payments made to General Telephone & Electronics Corporation, the owner of all of the Company's common stock, for the past eight years, notwithstanding the growth in the consolidated net income of Anglo-Canadian and its subsidiaries during that same period from \$6,712,854 to \$19,629,000. The reinvestment of the earnings which otherwise might have been paid out has contributed greatly to the financial strength of the Company and its subsidiaries. It is also an indication of confidence in the continuing growth and profitability of BCTel, Québec-Téléphone and Compania Dominicana de Telefonos.

On Behalf of the Board of Directors

A handwritten signature in blue ink, reading "John J. Douglas". The signature is fluid and cursive, with the first name "John" and last name "Douglas" clearly legible.

President

Consolidated Balance Sheets

December 31, 1974 and 1973

Assets

	1974	1973
	(Thousands of dollars)	
FIXED ASSETS:		
Telephone plant, at cost	\$1,529,745	\$1,322,982
Accumulated depreciation (Note 1)	(331,215)	(293,220)
	<u>1,198,530</u>	<u>1,029,762</u>
Cost of investments in subsidiaries in excess of underlying book value as of the dates of acquisition	33,707	33,785
	<u>1,232,237</u>	<u>1,063,547</u>
 INVESTMENTS AND OTHER ASSETS, at cost	 <u>4,902</u>	 <u>4,971</u>
 CURRENT ASSETS:		
Cash and short-term deposits	3,839	5,137
Receivables (including unbilled revenues), less allowances for doubtful accounts of \$1,344,000 and \$1,095,000 at the respective dates	53,195	43,753
Materials and supplies, at average cost	26,491	15,948
Prepayments and other	6,171	3,843
	<u>89,696</u>	<u>68,681</u>
 DEFERRED CHARGES:		
Unamortized cost of issuing long-term debt	1,330	1,223
Other deferred charges (Note 1)	12,112	7,462
	<u>13,442</u>	<u>8,685</u>
	<u>\$1,340,277</u>	<u>\$1,145,884</u>

Signed on behalf of the Board:

DAVID L. TORREY, Director

JOHN J. DOUGLAS, Director

The accompanying notes form an integral part of these consolidated financial statements.

Shareholders' Interest and Liabilities

	1974	1973
	(Thousands of dollars)	
COMMON SHARE EQUITY:		
Common shares (Note 2)	\$ 12,037	\$ 12,037
Premium on common shares	34,218	34,218
Retained earnings (Note 3)	124,168	106,708
Anglo-Canadian common share equity	170,423	152,963
Minority interest in subsidiaries	128,799	114,612
Total common share equity	299,222	267,575
PREFERRED AND PREFERENCE SHARES (See page 8):		
Anglo-Canadian preferred shares	37,500	37,500
Subsidiaries' preference and preferred shares	136,482	120,347
Total preferred and preference shares	173,982	157,847
LONG-TERM DEBT (See page 8)	496,814	477,702
SHORT-TERM OBLIGATIONS (due within one year) (Note 1):		
Notes payable to banks (average interest rates of 11% and 9.48% respectively)	57,650	47,450
Commercial paper (average interest rates of 10.43% and 8.75% respectively)	39,867	1,870
Current portion of long-term debt	43,703	2,155
	141,220	51,475
CURRENT LIABILITIES (excluding short-term obligations):		
Accounts payable and accrued liabilities	32,504	28,016
Due to affiliates	9,848	7,753
Advance billings and customer deposits	9,924	8,426
Dividends	4,569	3,422
Accrued interest	10,817	8,758
Accrued taxes	6,446	6,825
	74,108	63,200
DEFERRED CREDITS (Note 1)	154,931	128,085
CONSTRUCTION PROGRAMS AND COMMITMENTS (Notes 1 and 4)	<u>\$1,340,277</u>	<u>\$1,145,884</u>

Consolidated Statements of Income

For the years ended December 31, 1974 and 1973

	1974	1973
	(Thousands of dollars)	
OPERATING REVENUES:		
Local service	\$154,362	\$139,715
Toll service	204,661	168,505
Miscellaneous	18,525	20,937
Provision for doubtful accounts	(3,409)	(2,520)
	<u>374,139</u>	<u>326,637</u>
OPERATING EXPENSES AND TAXES:		
Maintenance	78,586	63,729
Depreciation (Note 1)	68,299	60,395
Traffic	33,117	28,065
Commercial	25,535	21,664
General, administrative and other	42,627	40,027
General taxes	15,957	12,280
Provision for Federal and Provincial		
income taxes—current	5,028	8,230
—deferred (Note 1)	26,592	22,972
	<u>295,741</u>	<u>257,362</u>
Operating income	78,398	69,275
MISCELLANEOUS INCOME—NET (Note 1)	5,779	4,162
	<u>84,177</u>	<u>73,437</u>
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	37,967	32,052
Other interest and amortization of discount and cost of		
issuing long-term debt	8,343	4,365
	<u>46,310</u>	<u>36,417</u>
Income before outside shareholders' interest	37,867	37,020
OUTSIDE SHAREHOLDERS' INTEREST:		
Preference and preferred dividends of subsidiaries	7,130	6,519
Minority interest in net income of subsidiaries	11,108	11,344
	<u>18,238</u>	<u>17,863</u>
Consolidated net income	<u>\$ 19,629</u>	<u>\$ 19,157</u>

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31, 1974 and 1973

	1974	1973
	(Thousands of dollars)	
BALANCE AT BEGINNING OF YEAR	\$106,708	\$ 89,757
ADD—		
Consolidated net income	19,629	19,157
	<u>126,337</u>	<u>108,914</u>
DEDUCT—		
Dividends paid or provided for on Cumulative Preferred shares		
4½ % Cumulative Preferred shares	281	281
\$2.90 Cumulative Preferred shares	363	363
\$2.65 Cumulative Preferred shares	848	848
\$3.15 Cumulative Preferred shares	567	567
Share issue expenses	110	147
	<u>2,169</u>	<u>2,206</u>
BALANCE AT END OF YEAR (Note 3)	<u>\$124,168</u>	<u>\$106,708</u>

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1974 and 1973

	1974	1973
	(Thousands of dollars)	
SOURCE OF FUNDS:		
From operations		
Consolidated net income	\$ 19,629	\$ 19,157
Add—Expenses not requiring cash outlay		
Depreciation	68,299	60,395
Deferred income taxes	26,592	22,972
Other	2,456	2,845
	<u>116,976</u>	<u>105,369</u>
Sale or issuance of equity securities of subsidiaries	27,242	5,658
Sale or issuance of long-term debt	19,657	41,740
Increase in short-term obligations	89,745	39,765
	<u>\$253,620</u>	<u>\$192,532</u>
USE OF FUNDS:		
Capital expenditures	\$237,635	\$194,191
Reduction of long-term debt	545	9,341
Dividends paid on preferred shares	2,059	2,059
Increase (decrease) in working capital	10,107	(10,766)
Deferred charges and other	3,274	(2,293)
	<u>\$253,620</u>	<u>\$192,532</u>

The accompanying notes form an integral part of these consolidated financial statements.

Summary of Preferred and Preference Shares and Long-Term Debt

December 31, 1974

	<u>Shares</u>	<u>Amount</u> (Thousands of dollars)
PREFERRED AND PREFERENCE SHARES:		
Anglo-Canadian Preferred shares, par value \$50 per share cumulative dividend. Authorized 1,000,000 shares redeemable at \$53 per share, outstanding 750,000 shares		
4½ % Cumulative Preferred shares	125,000	\$ 6,250
\$2.90 Cumulative Preferred shares	125,000	6,250
\$2.65 Cumulative Preferred shares	320,000	16,000
\$3.15 Cumulative Preferred shares	180,000	9,000
		<u>37,500</u>
Subsidiaries' Preference and Preferred shares		
British Columbia Telephone Company		
6% Cumulative Preference and Preferred shares (\$100 par value)		5,500
4¾ % to 5¾ % Cumulative Redeemable Preferred shares (\$100 par value)		48,000
4.84% to 8¾ % Cumulative Redeemable Preferred shares (\$25 par value)		67,000
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)		
40¢ Cumulative Redeemable Preferred shares (\$9 par value)		450
Québec-Téléphone		
5% Cumulative Sinking Fund Redeemable Preferred shares (\$20 par value)		1,725
4¾ % to 7¾ % Cumulative Redeemable Preferred shares (\$20 par value)		13,780
6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A (\$15 par value)		27
		<u>136,482</u>
Total preferred and preference shares		<u>\$173,982</u>
LONG-TERM DEBT:		
Anglo-Canadian Telephone Company		
6½ % Sinking Fund Debentures, Series A, due 1983		\$ 2,080
British Columbia Telephone Company		
First Mortgage Bonds 5% to 9½ %, due 1978-1998		424,782
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)		
General Mortgage Sinking Fund Bonds 5¾ % to 6½ % due 1977-1986		5,187
Québec-Téléphone		
First Mortgage Redeemable Sinking Fund Bonds 5½ % to 9¾ % due 1982-1994		44,296
General Mortgage Sinking Fund Bonds 5% to 6% due 1976-1983		7,297
Compania Dominicana de Telefonos, C. por A.		
Notes payable, 6% to 10% due 1976 - 1985		19,815
Total principal amount		503,457
Less—Unamortized discount on long-term debt		6,643
Total long-term debt		<u>\$496,814</u>

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 1974 and 1973

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

All subsidiaries have been included in the consolidated financial statements. Dominican pesos have been translated at par with the Canadian dollar.

	Percent
The subsidiaries and equity ownership at December 31, 1974 are as follows:	Owned
British Columbia Telephone Company	50.82
Compania Dominicana de Telefonos, C. por A.	100.00
Dominion Directory Company Limited	100.00
Québec-Téléphone	54.58
York Investment Co. Ltd.	100.00

Compania Dominicana de Telefonos, C. por A. is a telephone operating company in the Dominican Republic. The Company's investment in and amounts due from Compania Dominicana at December 31, 1974 and 1973 amounted to \$9,527,000 and \$9,532,000, respectively, and the net assets of Compania Dominicana at these dates were \$38,365,000 and \$32,532,000, respectively. Net income of Compania Dominicana included in consolidated net income was \$6,666,000 in 1974 and \$5,804,000 in 1973.

Under the terms of the original contract made with the Government of the Dominican Republic, the Dominican Government has the right to acquire, at any time, the telephone, telegraph and radio-telegraph property and related assets and liabilities of Compania Dominicana at underlying book value.

b) Depreciation of Telephone Plant

Depreciation is provided on the straight-line method, for book purposes, based on engineering studies of the estimated lives and salvage value of the various classes of depreciable property.

c) Short-term obligations

The short-term obligations have been used, directly or indirectly, to finance the subsidiaries' construction programs. These short-term obligations (including currently maturing long-term debt) have been excluded from current liabilities because it is expected that they will in time be refinanced by issues of long-term debt or equity capital. It is also expected that the companies will continue to enter into new short-term obligations, as the construction programs continue.

d) Deferred credits

Certain subsidiaries are presently claiming for income tax purposes capital cost allowances in excess of depreciation charged to the accounts and other expenditures which are capitalized in their accounts. The resulting reduction in income taxes is deferred. The balance of taxes deferred by the subsidiaries included in Deferred Credits amounted to \$153,612,000 and \$126,066,000 as of December 31, 1974 and 1973, respectively.

Notes to Consolidated Financial Statements (continued)

e) Other deferred charges

These charges represent purchases of materials, salaries, and other items which will be distributed principally to the telephone plant in the next year.

f) Allowance for funds used during construction

Miscellaneous income includes a credit for the allowance for funds used during construction of \$5,298,000 in 1974 and \$3,294,000 in 1973.

g) Pension plans

All companies maintain funded pension plans for the benefit of substantially all employees. The actuarially determined aggregate cost of maintaining the pension plans, including amortization of unfunded costs over periods not exceeding 25 years from January 1, 1965 was \$9,957,000 in 1974 and \$8,061,000 in 1973. Such amounts were paid to trustees. The pension fund assets exceeded the actuarially computed value of the vested pension benefits of the plans at December 31, 1973, the latest valuation date. The present value of the estimated unfunded costs amounted to approximately \$15,194,000 at December 31, 1974.

2. COMMON SHARES, \$10 PAR VALUE

Authorized—1,700,000 shares

Issued and outstanding—1,203,685 shares

3. RETAINED EARNINGS

Under the terms (the most restrictive) of the Trust Deed pursuant to which the 6½% Sinking Fund Debentures Series A were issued by Anglo-Canadian Telephone Company, \$4,789,000 of the consolidated retained earnings of \$124,168,000 at December 31, 1974 were restricted as to the payment of common dividends.

4. CONSTRUCTION PROGRAMS

The telephone subsidiaries' 1975 construction programs, as now planned, approximate \$323,000,000 for which substantial purchase commitments have been made. These construction programs will be financed by cash available from operations and short-term obligations pending permanent financing.

Auditors' Report

TO THE SHAREHOLDERS OF
ANGLO-CANADIAN TELEPHONE COMPANY:

We have examined the consolidated balance sheets and the summary of preferred and preference shares and long-term debt of ANGLO-CANADIAN TELEPHONE COMPANY (a Quebec company) AND SUBSIDIARIES as of December 31, 1974 and 1973, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Anglo-Canadian Telephone Company and subsidiaries as of December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent during the periods.

ARTHUR ANDERSEN & Co.,
Chartered Accountants.

Montreal, February 7, 1975

